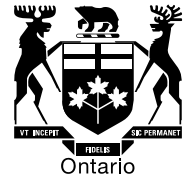


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**BY EMAIL**

February 3, 2016

Ontario Energy Board  
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2300 Yonge Street  
Toronto ON M4P 1E4  
Kirsten.Walli@ontarioenergyboard.ca

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Enersource Hydro Mississauga Inc.  
2016 IRM Distribution Rate Application  
OEB Staff Submission  
OEB File No. EB-2015-0065**

In accordance with Procedural Order No.3, please find attached the OEB staff submission in the above proceeding. This document is being forwarded to Enersource Hydro Mississauga Inc. (Enersource) and to all other registered parties to this proceeding.

Enersource is reminded that its reply submission is due by February 10, 2016, should it choose to file one.

Yours truly,

*Original Signed By*

Jane Scott  
Project Advisor, Electricity Rates & Prices

Encl.



# **ONTARIO ENERGY BOARD**

## **STAFF SUBMISSION**

**2016 ELECTRICITY DISTRIBUTION RATES**

**Enersource Hydro Mississauga Inc.**

**EB-2015-0065**

**February 3, 2016**

**OEB Staff Submission  
Enersource Hydro Mississauga Inc.  
2016 IRM Rate Application  
EB-2015-0065**

## **Introduction**

Enersource Hydro Mississauga Inc. (Enersource) filed a complete application with the Ontario Energy Board (the OEB) on October 2, 2015 under section 78 of the *Ontario Energy Board Act, 1998*, seeking approval for changes to the rates that Enersource charges for electricity distribution, effective January 1, 2016. The application is based on the 2016 Price Cap Incentive Regulation (IR) option. The application also included requests for an Incremental Capital Module (ICM) and eligible investments for connection of qualifying renewable generation facilities to be funded by the Independent Electricity System Operator (IESO).

The parties to the proceeding are Enersource and the following approved intervenors:

Association of Major Power Consumers in Ontario (AMPCO)  
Consumers Council of Canada (CCC)  
Energy Probe Research Foundation (Energy Probe)  
School Energy Coalition (SEC)  
Vulnerable Energy Consumers Coalition (VECC)

OEB staff notes that there have been a number of updates to the evidence in the course of this proceeding. This submission is based on the status of the record as of the date of filing of Enersource's undertaking responses and reflects observations which arise from OEB staff's review of the evidence. It is intended to assist the OEB in deciding upon Enersource's application.

OEB staff's submission centres on the following issues:

- Incremental Capital Module
- Eligible Investments for Connection of Qualifying Generation Facilities to be funded by the IESO
- Price Cap IR
- Shared Tax Adjustments
- Retail Transmission Service Rates

- Review and Disposition of Group 1 Deferral and Variance Accounts
- Residential Rate Design

## **Incremental Capital Module**

Enersource has applied for a 2016 ICM relating to \$68.3 million in capital additions and a resulting revenue requirement of \$5.3 million<sup>1</sup>. An ICM is available to distributors during the Price Cap IR years for capital investment needs that are incremental to the OEB's materiality threshold, as set out below.

### ICM Materiality Threshold

The ICM materiality threshold was determined by the OEB in the Chapter 3 of the Filing Requirements for Distribution Rate Application.<sup>2</sup> It represents a distributor's financial capacities underpinned by existing rates, including growth and a 20% dead band. The equation used to calculate the materiality threshold is as follows:

$$\text{Materiality Threshold Value} = 1 + (\text{RB}/d) * (g + \text{PCI} * (1 + g)) + 20\%$$

Where: RB = Rate Base included in base rates (\$)

d = depreciation expense included in base rates (\$)

g = distribution revenue change from load growth (%)

PCI = price cap index

The OEB expects a distributor to manage within a capital expenditures level equal to the product of the depreciation expense included in base rates and the materiality threshold value, before being eligible to apply to recover incremental amounts.

Enersource has correctly calculated its materiality threshold value to be equal to 164%.

Depreciation included in Enersource's last cost of service rates in 2013 was \$28.7 million; meaning only forecasted capital above \$41.2 million is eligible for the ICM (164% x \$28.7 million).

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<sup>1</sup> As updated in Undertaking JT1.17, January 18, 2016

<sup>2</sup> Filing Requirements for Electricity Distribution Rate Applications, Chapter 3 Incentive Rate-Setting Applications, July 16, 2015, p. 17

The OEB issued a report on January 22, 2016<sup>3</sup> which updated the calculation of the materiality threshold however Enersource did not revise their application as a result of the new policy. The effect of the new calculation would be to decrease the materiality threshold, therefore OEB staff has no concerns that Enersource has not revised their application.

Enersource has presented a total capital budget for 2016 of \$115.4 million, and requested an ICM for the amount above the materiality threshold, i.e. \$68.3 million (\$115.4 million - \$41.7 million).

OEB staff notes that this materiality threshold only sets the allowable amount for an ICM within the spending forecast; every item requested to be part of the ICM must also meet all three of the OEB's stated criteria<sup>4</sup>:

- Materiality – any incremental capital amounts must fit within the maximum allowed incremental capital amount as defined above and clearly have a significant influence on the operation of the distributor,
- Need – distributor must pass the Means Test; amounts must be based on discrete projects and directly related to the claimed driver, and must be clearly outside of the base upon which the rates were derived,
- Prudence – amounts to be incurred must be prudent.

The Means Test states that if the utility's regulated return exceeds 300 basis points above the deemed regulatory return on equity (ROE) embedded in the distributor's rates, the funding for any incremental capital project will not be allowed. Enersource submitted evidence to show that its 2014 achieved regulatory ROE was 9.43% compared to the deemed ROE from the most recent cost of service application of 8.93%<sup>5</sup>, thereby passing the ICM Means Test.

### Composition of the ICM

The ICM can be divided into two distinct parts. The first, and larger part, is a true up payment to Hydro One Networks Inc. (Hydro One) of \$40.5 million for projected load relating to the construction of Churchill Meadows TS in 2010 which has not

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<sup>3</sup> EB-2014-0219, Report of the OEB, New Policy Options for the Funding of Capital Investments: Supplemental Report, January 22, 2016

<sup>4</sup> Filing Requirements for Electricity Distribution Rate Application, Chapter 3 Incentive Rate-Setting Applications, July 16, 2015, p. 17

<sup>5</sup> Response to AMPCO-17, December 9, 2015

materialized. The second part relates to increased capital investment in its system in the amount of \$27.8 million.

### ***A. Payment to Hydro One***

#### Need for the New Station

In 2005, Enersource participated with Hydro One and other utilities in a joint planning study to identify the need for transmission capacity in the Greater Toronto Area for the subsequent ten years. The forecast for Enersource's 44kV subtransmission system anticipated load growth of 1.5%, and identified demand exceeding installed load-meeting capability at Erindale and Meadowvale transformer stations as early as 2006.

One of the recommendations from that report<sup>6</sup> was the construction of a 230/44 kV transformer station in the vicinity of Winston Churchill Blvd. and Highway 403 within Enersource's service territory to relieve loading on Meadowvale TS and Erindale TS.

The new Churchill Meadows transformer station was put into service in 2010.

#### Cost Responsibility for the Churchill Meadows TS

The Transmission System Code (TSC) sets out cost responsibility principles for construction or modification of transmission facilities<sup>7</sup>; stating that a transmitter shall require a capital contribution from the load customer to cover the cost of a facility required to meet the load customer's needs and a capital contribution may only be required to the extent that the cost of the facility is not recoverable in revenues. The TSC also requires a transmitter to carry out a true-up calculation, based on actual customer load, for low risk projects, every five years<sup>8</sup>. This ensures that the customer – rather than the transmitter – bears the risk of the investment. In this case, Enersource is the customer of Hydro One.

In order to determine the capital contribution required from Enersource, Hydro One calculated the discounted cash flow of the project using the economic evaluation model<sup>9</sup>, which determines the net present value of the incremental revenue and costs

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<sup>6</sup> GTA West Supply Study, Adequacy of Transmission Facilities and Transmission Supply Plan 2005-2015, February 16, 2006

<sup>7</sup> TSC, Section 6.3.1

<sup>8</sup> TSC, Section 6.5.3

<sup>9</sup> Transmission System Code (TSC), Appendix 5

(capital, operating and maintenance, taxes) over the economic evaluation period. In this case, the Churchill Meadows TS project was considered to be low risk and, so, the economic evaluation period was set at twenty five years. Based on a forecast of incremental load growth on its whole 44kV system<sup>10</sup>, Enersource paid a capital contribution to Hydro One of \$2.4 million.

When Hydro One conducted its fifth year review in 2015, none of the forecasted incremental load had materialized. In the evidence, Enersource indicated that the forecasted load had not materialized due primarily to the economic downturn, which started in 2008 with the impact continuing for a number of years. In addition, conservation and demand management programs had negatively affected growth, albeit to a lesser extent.<sup>11</sup> Enersource's delivered energy volumes have fallen by 8.5% and its annual peak demand has declined 14% between 2005 and 2014.<sup>12</sup>

Hydro One has provided Enersource with the calculation of the required true-up, based on zero incremental load on the 44kV system. The total payment is \$40.5 million, which based on Enersource's average base capital expenditures over the last three years of \$50.4 million, would have a significant influence on Enersource's operations, should it not be approved as part of the ICM. As part of the Connection and Cost Recovery Agreement (CCRA) with Hydro One, Enersource has a contractual responsibility to pay Hydro One, if the forecasted load does not materialize.<sup>13</sup>

#### Submission of OEB Staff

The decline in peak load in the period since the station was planned and built indicates that the station is plainly no longer needed. Enersource may be using the station to supply customer load but it is clear from current load levels that no incremental capacity was required to supply Enersource's 44kV system.

Nevertheless, OEB staff submits that it is inappropriate to question the prudence of this investment with the benefit of hindsight. The OEB has a well-established set of principles regarding the conduct of a prudence review:

- Decisions made by the utility's management should generally be presumed to be prudent unless challenged on reasonable grounds.

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<sup>10</sup> Transcript p. 191, lines 13-16

<sup>11</sup> EB-2015-0065, Tab 2, p.27

<sup>12</sup> OEB Yearbooks, 2005-2014

<sup>13</sup> EB-2015-0065, Attachment L, Churchill Meadows CCRA, Part B, Section 13(c), December 23, 2008

- To be prudent, a decision must have been reasonable under the circumstances that were known or ought to have been known to the utility at the time the decision was made.
- Hindsight should not be used in determining prudence, although consideration of the outcome of the decision may legitimately be used to overcome the presumption of prudence.
- Prudence must be determined in a retrospective factual inquiry, in that the evidence must be concerned with the time the decision was made and must be based on facts about the elements that could or did enter into the decision at the time.<sup>14</sup>

OEB staff submits that at the time the decision was made to build the Churchill Meadows TS, the evidence was sufficient to determine the prudence of the investment. Furthermore, the costs of the station have already been added to each company's respective rate base<sup>15</sup>

On this basis, OEB staff submits that a payment to Hydro One is required in accordance with the TSC. OEB staff further submits that the amount has been correctly calculated in the economic evaluation model but wishes to discuss, for the sake of clarity, both the magnitude of the contribution and tax considerations that may affect the calculation of the revenue requirement associated with Enersource's capital contribution.

A review of the evidence reveals that the payment is significantly larger than the original 2010 upfront capital cost as shown in the following table.<sup>16</sup>

Table 1-Comparison of 2010 Costs to 2015 Contribution

	2010 Upfront Costs (\$)	Required 2015 Contribution (\$)
Line	922,000	1,716,000
Network	242,000	422,000
Transformation	27,332,000	38,341,000
Total	28,568,000	40,479,000

<sup>14</sup> Enersource, EB-2012-0033, Decision and Order, December 13, 2012, p. 13

<sup>15</sup> For Enersource: EB-2012-0033, for Hydro One: EB-2005-0501

<sup>16</sup> Derived from response to 2-Staff-6



A comparison of these amounts shows that Enersource's customers appear liable for an amount greater than the investment Hydro One initially made in 2010. There are two reasons for this large increase: (1) the inflationary effect from 2010 to 2015 and (2) the impact of the Capital Cost Allowance (CCA) tax shield.

The primary reason the current contribution exceeds Hydro One's costs is a feature of the principles of the capital contribution. Hydro One's initial investment in the station anticipated a return on its rate base through incremental revenues recovered through rates. Because the load growth did not materialize, it received no return on investment. Therefore, in order to restore its foregone returns, the capital contribution has been escalated: starting with an estimate of the capital contribution in 2010 under a zero-growth scenario, the economic evaluation model escalates the amount to 2015 using Hydro One's weighted average cost of capital. This ensures that Hydro One is held financially whole for the investment it has made.

A secondary driver of the change in value is the result of CCA tax rules. The CCA tax shield is a reduction in the amount of income subject to tax that results from the presence of capital cost allowance deductions on the income statement. Hydro One can only claim a CCA tax shield for its costs net of any contribution. Therefore, as the contribution requirement increases due to the reduction in incremental revenue, the amount of the CCA tax shield that Hydro One can claim decreases.

In the economic evaluation model for the transformation connection provided in response to 2-Staff-6, Hydro One has used a CCA rate of 8% in its calculation. This is the CCA rate for Class 47, which is transmission or distribution equipment (which may include for this purpose a structure) used for the transmission or distribution of electrical energy. Enersource has used a CCA rate of 4% which would appear to be Class 1 for buildings. OEB staff is of the view that the CCA rate should be 8%, and therefore does not understand the approach used by Enersource. The selected CCA rate may materially affect the revenue requirement associated with Enersource's capital contribution.

A final aspect of this element of Enersource's ICM request concerns the timing of the true-up payment to Hydro One. At the technical conference held between the parties on January 8, 2016 Enersource confirmed that the \$40.5 million payment to Hydro One had been made on December 15, 2015.<sup>17</sup> This raises the question of whether it then

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<sup>17</sup> Transcript, p. 5

qualifies for a 2016 ICM. An ICM is normally based on a prospective request to spend funds. The OEB has established other mechanisms to recover costs after the fact, for example the Z factor. However, OEB staff submits that Enersource was not in control of when this payment was going to be demanded by Hydro One and proceeded with the ICM request in good faith. OEB staff therefore views it acceptable to treat it as part of a 2016 ICM request. Additionally, if this issue had been addressed as part of a cost of service application, 2016 would have been the year in which the full amount would have been included in rate base.

The \$40.5 million payment to Hydro One fits within the maximum allowed incremental capital amount and is clearly outside of the base upon which Enersource's 2013 cost of service's rates were derived<sup>18</sup>. OEB staff submits that the payment to Hydro One is acceptable as an ICM project as it meets the required criteria. OEB staff notes that, in the future, should Enersource receive any funds from Hydro One as a result of a further true-up, these funds should be returned directly to the customers of Enersource. In addition, OEB staff notes that in calculating the revenue requirement, rate riders and subsequent true-up for this portion of the ICM, Enersource should ensure that the correct impact of the CCA tax shield is included.

### ***B. Other Capital Projects***

The remaining \$27.8 million of Enersource's ICM request was originally presented as being based on Enersource's total capital budget minus the materiality threshold and the contribution to Hydro One. No specific projects were identified as being ICM projects. At the technical conference, Enersource indicated "that [identifying ICM projects] isn't how [Enersource] characterized this whole application"<sup>19</sup>. Enersource, however, then undertook to identify discrete projects for the ICM and provided the parties with business cases for all projects included in the requested capital budget.<sup>20</sup> It was only after the technical conference that certain projects and programs were identified by Enersource as being part of the \$27.8 million ICM request.<sup>21</sup>

Enersource attributed its need for increased capital over that provided for in the 2013 cost of service application (and the payment to Hydro One) primarily to having improved condition information on its assets. Enersource stated that an Asset Management

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<sup>18</sup> EB-2012-0033

<sup>19</sup> Transcript, p. 14, lines 13-17

<sup>20</sup> EB-2015-0065, Supplementary ICM Evidence Summary, October 2, 2016

<sup>21</sup> Response to Undertaking JT1.2, January 18, 2016

Strategy Group was created in 2013, inspection programs were developed and with this more detailed information it was determined that a larger number of its assets needed to be replaced than had previously been forecasted in Enersource's 2012 Asset Management Plan.<sup>22</sup>

The following table provides the list of projects that Enersource proposed to be part of its ICM request, limited only to those projects that would be put in-service in 2016 (including those on which work began in 2015 and are expected in-service this year).

Table 2 – ICM Projects

#	Program	Project	Budget
2016-C0504-1	Substation Upgrade	Mini-Orlando MS	\$ 4,995,385
2016-C0504-5		Webb MS-Land	\$ 500,000
2016-C0504-6		Mini-Britania-Land	\$ 500,000
2016-C0504-7		Duke MS-Land	\$ 500,000
2016-C0505-1A	Subdivision Rebuild	Ellengate	\$ 2,000,000
2016-C0505-1B		Rockwood	\$ 1,500,000
2016-C0505-1C		Clarkson	\$ 1,750,000
2016-C0561-7	Overhead Rebuilds	Vermouth	\$ 360,000
2016-C0561-8		Holburne	\$ 360,000
2016-C0561-9		Meadow Wood	\$ 1,170,000
2016-C0562-1A	Subtransmission Renewal	Bloor	\$ 600,000
2016-C0562-1B		Lakeshore	\$ 690,000
2016-C0562-1C		Park	\$ 960,000
2016-C0562-1D		Queen	\$ 600,000
2016-C0562-1E		Goreway	\$ 1,200,000
2016-C0562-1F		Stavebank	\$ 150,000
2016-C0563	U/G Transformer and Equipment Renewal		\$ 4,125,000
2016-C0564	O/H Transformer and Equipment Renewal		\$ 3,000,000
2016-C0581-1	Engineering & Assets Systems	InService Upgrade	\$ 125,000
2016-C0581-6A		G/Technology	\$ 70,000
2016-C0581-3		SmartPlant Upgrade	\$ 362,092
2016-C0589	Meter to Cash	Monthly billing	\$ 725,000
2016-C0597-1	Grid Supply Point Metering	TCP/IP GSP	\$ 163,320
2016-C0597-2		Tomken	\$ 1,100,000
		BizTalk Upgrade	\$ 373,118
	Total		\$27,878,915

<sup>22</sup> EB-2012-0033, Exhibit 2, Tab 2, Schedule 2, Appendix 1

In order to assess each line item in the above table, OEB staff consulted the *Report of The Board: New Policy Options for the Funding of Capital Investments: The Advanced Capital Module* (the ACM Report). The ACM Report provides the following criteria for eligibility as part of an ICM, all of which must be met:

### **Discrete Projects**

Projects proposed for incremental capital funding during the IR term must be discrete projects, and not part of typical annual capital programs.<sup>23</sup> OEB staff acknowledges that the OEB's decision in Toronto Hydro's 2012/2013 ICM application<sup>24</sup> approved annual capital programs for inclusion in ICM funding due to its special circumstances. This application pre-dated the current OEB policy on ICMs.<sup>25</sup> OEB staff has applied the current policies of the OEB articulated in the ACM Report.

### **Materiality**

In addition to the preliminary materiality threshold calculation discussed above, the ACM Report also notes that the OEB has adopted a project-specific materiality threshold, as identified in the Toronto Hydro decision.<sup>26</sup> This states that specific projects will not be approved on the basis that they are minor expenditures in comparison to the overall capital budget. In addition, the ICM amounts must clearly have a significant influence on the operation of the distributor; otherwise they should be dealt with at rebasing.<sup>27</sup>

### **Base Rates**

Distributors requesting an ICM must show that the requested spending is clearly not included in the base upon which rates have been derived.<sup>28</sup> For Enersource, its last rebasing was in 2013.

### **Need and Prudence**

The amounts to be incurred must be prudent. This means that the distributor's decision to incur the amounts must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.<sup>29</sup>

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<sup>23</sup> EB-2014-0219, September 18, 2014, Section 4.1.1

<sup>24</sup> EB-2012-0064, Partial Decision and Order, April 2, 2013

<sup>25</sup> Toronto Hydro's Decision was in April 2013, the ACM Report was issued September 2104

<sup>26</sup> EB-2012-0064, op.cit. pp. 18-19. Specific projects were not approved on the basis that they were minor expenditures in comparison to the overall capital budget.

<sup>27</sup> EB-2014-0219, September 18, 2014, Section 4.1.5

<sup>28</sup> *ibid*

<sup>29</sup> *ibid*

The above criteria have been applied systematically to the list of projects identified by Enersource in Table 3 above.

### **Discrete Projects**

There are a number of programs in Table 2 which, in OEB staff's view, do not qualify for the ICM, based on the clear direction provided by the ACM Report. The programs, Overhead Transformer and Equipment Renewal and Underground Transformer and Equipment Renewal, are not presented as discrete projects but as ongoing capital work and, therefore, OEB staff does not recommend these two programs be approved as part of the ICM.

### **Materiality**

Enersource has identified its materiality guideline as greater than \$0.6 million.<sup>30</sup> Based on this, OEB staff does not recommend approval of any of the projects included by Enersource that are minor in comparison to the overall capital budget, as shown in the following table.

In addition to not being materially significant, the BizTalk Upgrade project was added to the list as part of the Undertaking JT1.2 and no information was provided regarding what it entailed, its need or prudence. OEB staff therefore submits that it should not be approved.

Finally, OEB staff also opposes the implementation of monthly billing in the list of ICM-eligible projects. OEB staff notes that in a letter announcing amendments to the Distribution System Code related to the implementation of monthly billing, issued by the OEB on April 15, 2015, distributors were advised that they "can apply for a deferral account with evidence demonstrating that such an account would meet the eligibility requirements" and "any deferral account would generally be for incremental administration costs". Prudently incurred capital expenditures would be included in rate base at the next cost of service application."<sup>31</sup> As a result, OEB staff does not recommend approval of the request to include the capital costs for the implementation of monthly billing but instead, as per the letter, any capital costs incurred for monthly billing should be included in Enersource's rate base at its next rebasing (cost of service or Custom IR) application.

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<sup>30</sup> EB-2015-0065, Tab 2 p.17

<sup>31</sup> EB-2014-0198, Letter to All Electricity Distributors, April 5, 2015

OEB staff's application of the above considerations yields the list of ICM projects in Table 3. OEB staff's reasons for deletions from the table are shown in column five.

Table 3 – Remaining ICM Projects

#	Program	Project	Budget	Reason for Disqualification
2016-C0504-1	Substation Upgrade	Mini-Orlando MS	\$ 4,995,385	
<del>2016-C0504-5</del>		<del>Webb MS Land</del>	<del>\$ 500,000</del>	Materiality
<del>2016-C0504-6</del>		<del>Mini-Britania Land</del>	<del>\$ 500,000</del>	Materiality
<del>2016-C0504-7</del>		<del>Duke MS Land</del>	<del>\$ 500,000</del>	Materiality
2016-C0505-1A	Subdivision Rebuild	Ellengate	\$ 2,000,000	
2016-C0505-1B		Rockwood	\$ 1,500,000	
2016-C0505-1C		Clarkson	\$ 1,750,000	
<del>2016-C0561-7</del>	<del>Overhead Rebuilds</del>	<del>Vermouth</del>	<del>\$ 360,000</del>	Materiality
<del>2016-C0561-8</del>		<del>Holburne</del>	<del>\$ 360,000</del>	Materiality
2016-C0561-9		Meadow Wood	\$ 1,170,000	
2016-C0562-1A	Subtransmission Renewal	Bloor	\$ 600,000	
2016-C0562-1B		Lakeshore	\$ 690,000	
2016-C0562-1C		Park	\$ 960,000	
2016-C0562-1D		Queen	\$ 600,000	
2016-C0562-1E		Goreway	\$ 1,200,000	
<del>2016-C0562-1F</del>		<del>Stavebank</del>	<del>\$ 150,000</del>	Materiality
<del>2016-C0563</del>	<del>U/G Transformer and Equipment Renewal</del>		<del>\$ 4,125,000</del>	Not Discrete Project
<del>2016-C0564</del>	<del>O/H Transformer and Equipment Renewal</del>		<del>\$ 3,000,000</del>	Not Discrete Project
2016-C0581-1	Engineering & Assets Systems	InService Upgrade	\$ 125,000	Materiality
<del>2016-C0581-6A</del>		<del>G/Technology</del>	<del>\$ 70,000</del>	Materiality
<del>2016-C0581-3</del>		<del>SmartPlant Upgrade</del>	<del>\$ 362,092</del>	Materiality
2016-C0589	Meter to Cash	Monthly billing	\$ 725,000	OEB Policy
2016-C0597-1	Grid Supply Point Metering	TCP/IP GSP	\$ 163,320	Materiality
2016-C0597-2		Tomken	\$ 1,100,000	
		BizTalk Upgrade	\$ 373,118	Materiality
	Total			

### Remaining Proposed ICM Projects

OEB staff then reviewed the remaining proposed ICM Projects against the remaining criteria.

### **Requested Budget Clearly Not Included in Base Rates**

For the Program Areas identified in the table above, Enersource has provided the following information regarding the dollars included in the 2013 base rates, the total 2016 budget and the request ICM amounts. OEB staff notes that Enersource confirmed

that in 2013 there was no specific identified funds for Subtransmission Renewal; they were included in Subtransmission Expansion.<sup>32</sup>

Table 4 – Total Amounts Included in Base Rates

Program Area	2013(\$)	2016(\$)	Incremental(\$)	Requested(\$)
Substation Upgrade	5,302,436	12,015,507	6,713,071	4,995,385
Subdivision Rebuild	7,846,797	13,401,296	5,554,499	5,250,000
Overhead Rebuild	2,727,129	6,164,345	3,437,216	1,170,000
Subtransmission Expansion	5,831,729	3,587,253		
Subtransmission Renewal	0	4,200,000		
Total Subtransmission	5,831,729	7,787,253	1,955,524	4,050,000
Grid Supply Point Metering	0	1,262,320	1,262,320	1,100,000

As can be seen from the above, for all program areas except Subtransmission, the requested ICM is less than the difference between the capital spending which was built into 2013 base rates and what is proposed for 2016. On that basis, capital spending in these categories has met the criterion that it clearly not already be in base rates. However, given combined capital spending in Subtransmission of \$5.8M in 2013, only \$1.96 million of the \$7.79 million proposed spending in 2016 is eligible for inclusion in the ICM.

## Evidence of Need and Prudence

### *Substation Upgrade – Mini-Orlando MS*

Mini-Orlando MS is a new substation to be built along Mavis Road, south of Highway 401. In the business case supporting the project, Enersource states the station is required to both address current feeder loading issues and supply specifically identified increases in load. In addition, Mini-Orlando will provide relief for the overloaded Erindale TS T1/T2 until new permanent 27.6kV capacity is available<sup>33</sup>. Construction of the station was started in 2015 and will be put in service in 2016. Enersource also provided evidence that the construction of a new substation was not included in the

<sup>32</sup> Transcript, p. 40

<sup>33</sup> While geographically proximate, Churchill Meadows TS does not relieve these portions of the Erindale transformer station because it supplies a higher voltage (44kV) than these facilities at Erindale TS (27.6kV)

base upon which rates have been derived.<sup>34</sup> In OEB staff's view, Enersource has provided sufficient evidence to support the inclusion of this station in the ICM.

*Subdivision Rebuild – Ellengate*

*Subdivision Rebuild – Rockwood*

*Subdivision Rebuild – Clarkson*

The Subdivision Rebuild projects which Enersource has included in its ICM application include the replacement of underground cables, transformers and other related components that have reached their expected end of life and that have been determined to have unacceptable operational risks. Enersource stated that the cables installed in subdivisions in the 1980s were non-jacketed and direct buried<sup>35</sup> and provided evidence that showed that approximately half of the total customer interruption minutes experienced in the past six years are related to defective equipment, with underground cable failures responsible for 68% of those minutes as shown in the table below.<sup>36</sup>

Table 5 – Customer Interruption Minutes Related to Defective Equipment

Cause Codes	2010	2011	2012	2013	2014	2015 Unaudited
Underground Cable	2,120,732	2,881,575	2,727,177	1,720,513	1,610,094	2,866,852
Fuse	39,211	38,392	50,685	27,675	7,392	25,914
Insulator	2,687	42,884	156,102	301,820	170,207	399,569
Switchgears	68,884	421,281	49,230	221,229	544,465	130,527
Overhead	230,471	1,098,335	425,638	521,462	692,494	208,503
Others/ Unknown	62,183	133,394	83,825	110,227	78,817	418,781
Splices	277,098	262,275	807,069	196,638	192,193	65,332
Switches	24,938	86,549	262,899	151,604	291,775	13,753
Elbows/Termination	55,984	62,340	70,562	219,763	39,223	133,806
Transformers	169,398	192,913	236,178	292,664	181,559	156,167
<b>Total</b>	<b>3,051,586</b>	<b>5,219,938</b>	<b>4,869,365</b>	<b>3,763,595</b>	<b>3,808,219</b>	<b>4,419,204</b>

Enersource has provided evidence that the three Subdivision Rebuild projects that have been proposed as part of its ICM are among the worst performing areas, based on number of cable faults, age of cable, cable type installed, transformer condition and the criticality of the customers affected.<sup>37</sup> Completion of these projects should have a

<sup>34</sup> Response to Undertaking JT1.2, January 18, 2016

<sup>35</sup> Transcript, p. 46

<sup>36</sup> Response to Undertaking JT1.11, January 18, 2016

<sup>37</sup> Supplementary Evidence, Business Cases for 2016-C0505-1 projects, October 2, 2015



positive impact on Enersource's reliability and as such OEB staff recommends that approval be provided to include as part of Enersource's ICM.

### *Overhead Rebuild – Meadow Wood*

Overhead Rebuild consists of a number of projects for pole replacements in conjunction with transformer and insulator upgrades either in specific areas of the City or as a general program. Enersource has stated that it has completed inspection of all of its poles and as a result has determined that there are more poles that need to be replaced than previously thought in 2012, when only age was used to determine condition.<sup>38</sup>

Enersource's draft Distribution System Plan is based on the 2013 Asset Condition Assessment report filed in response to interrogatory AMPCO-8. Based on this assessment, 351 wood poles are in poor or very poor condition and 5 concrete poles are in the same condition.<sup>39</sup> In its response to interrogatory AMPCO-15, Enersource indicated that the total number of poles that are planned to be replaced in 2016 is 525.<sup>40</sup> Enersource did not provide further justification of the need to replace almost 50% more poles in 2016 than was recommended in the Asset Condition Assessment Report.

OEB staff would recommend that the Meadow Wood Overhead Build project, which includes replacement of 72 poles, not be approved for inclusion in the ICM, since the scope of proposed pole replacement work already appears to exceed what its asset condition supports. OEB staff notes that Enersource may determine that it still needs to complete the Meadow Wood project within its approved budget; in this case OEB staff suggests that it be done within the scope of its poles program. Enersource can instead postpone a less critical project.

### *Subtransmission Renewal*

Subtransmission Renewal comprises the replacement of poles, transformers and insulators on Enersource's 44 kV and 27.6 kV systems. Evidence has been provided that indicates projects have been chosen which would cause the greatest risk to customers if they were to fail. Enersource has identified five material projects totalling \$4.1 million under Subtransmission Renewal. In its 2013 rates, Enersource had no

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<sup>38</sup> Transcript, p. 170

<sup>39</sup> Response to Supp-Staff-15, Draft Distribution System Plan, December 9, 2015, p. 82

<sup>40</sup> Response to AMPCO-15, December 9, 2015

spending for Subtransmission Renewal, indicating that it was included in the \$5.8 million shown for Subtransmission Expansion<sup>41</sup> as shown in the table above.

OEB staff would suggest that Enersource be allowed to include the incremental amount, i.e. \$1.96 million for Subtransmission Expansion/Renewal as part of the ICM.

#### *Grid Supply Point Metering – Tomken*

This project consists of upgrading the metering at Tomken TS in order to be fully compliant with the wholesale market rules. Enersource provided evidence that the decision to do this work in 2016 was under the control of Hydro One and had not been included in the previous cost of service.<sup>42</sup> Based on the evidence provided, OEB would recommend that this project be approved as part of Enersource's ICM, as it is a mandatory requirement to comply with the wholesale market rules.

#### Summary

In summary, based on the above, OEB staff supports the following suite of projects, totalling \$53.8 million, for ICM treatment:

Table 6- ICM Projects Recommended For Approval by OEB Staff

#	Program	Project	Budget
		Payment to HONI	\$ 40,479,000
2016-C0504-1	Substation Upgrade	Mini-Orlando MS	\$ 4,995,385
2016-C0505-1A	Subdivision Rebuild	Ellengate	\$ 2,000,000
2016-C0505-1B		Rockwood	\$ 1,500,000
2016-C0505-1C		Clarkson	\$ 1,750,000
2016-C0562-?	Subtransmission Renewal	To be determined	\$ 1,955,524
2016-C0597-2	Grid Supply Point Metering	Tomken	\$ 1,100,000
	Total		\$ 53,779,909

<sup>41</sup> Transcript, p. 40

<sup>42</sup> Transcript, p. 86

## **Eligible Investments for Connection of Qualifying Generation Facilities to be funded by the IESO**

Enersource filed a basic Green Energy Plan as part of its 2013 cost of service application. The plan provided a forecast of the number of projects and costs related to the connection of FIT and microFIT projects until 2016. As part of this IRM application, Enersource has provided an update to the number of scheduled projects for 2015 and 2016 and an estimate of the associated costs. OEB staff submits that Enersource has correctly calculated the direct benefit to Enersource's customers related to these investments and therefore the amount to be collected from all provincial rate payers, i.e. \$105,010. Enersource has indicated that the three deferral accounts used to record revenues and expenses related to the connection of renewable generation; 1531, 1532 and 1533 will be disposed of at the time of its next cost of service application.

## **Price Cap Incentive Rate-setting**

In calculating its rates for 2016, Enersource has used the OEB assigned stretch factor of 0.15%, based on the updated benchmarking study for use for rates effective in 2016.<sup>43</sup> In addition, Enersource updated the price cap index adjustment for the 2016 inflation factor set by the OEB of 2.1%. As a result, the net price cap adjustment used by Enersource is 1.95%. OEB staff submits that Enersource has correctly calculated and applied the price cap adjustment.

## **Shared Tax Adjustments**

Enersource has applied for a total tax increase of \$61,985 related to the increase in the tax rate in 2016 from its last cost of service year 2013. As per OEB policy, Enersource has proposed to collect fifty percent of this amount, \$30,982, from customers through a rate rider. OEB staff submits that Enersource has correctly calculated the amount of tax sharing and the class rate riders.

## **Retail Transmission Service Rates**

OEB staff has no concerns with the data supporting the updated Retail Transmission

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<sup>43</sup> Report to the Ontario Energy Board – "Empirical Research in Support of Incentive Rate-setting: 2104 Benchmarking Update", Pacific Economics Group LLC, July 2015

Service Rates proposed by Enersource. Pursuant to the OEB's Guideline G-2008-0001, OEB staff will update the applicable data at the time of the OEB's Decision on the Application based on the updated Uniform Transmission Rates approved by the OEB on January 1, 2016.<sup>44</sup>

## **Review and Disposition of Group 1 Deferral and Variance Accounts**

Enersource completed the Deferral and Variance Account continuity schedule included in the 2016 IRM Rate Generator Model at tab 3 for its Group 1 Deferral and Variance Accounts. Enersource requested to dispose of \$10.6 million in Group 1 deferral and variance account balances over a one-year period. Enersource did not dispose of its Group 1 Deferral and Variance Accounts in its 2015 IR application as the balances did not pass the disposition threshold at the time of that application.

These updated balances also include interest calculated to December 31, 2015. Based on the threshold test calculation, the Group 1 Deferral and Variance Account balances equate to a debit of \$0.0014 per kWh, which exceeds the pre-set disposition threshold. OEB staff has reviewed Enersource's Group 1 Deferral and Variance Account balances and notes that the principal balances as of December 31, 2014 reconcile with the balances reported as part of the Reporting and Record-keeping Requirements.

The balance of Account 1589 – Global Adjustment (GA) is a debit of \$11.4 million, and is applicable only to Non-RPP customers. Enersource has properly allocated recovery of this amount to the appropriate customers, including indicating on the tariff that new Class A customers that were Class B customers when the GA balance was generated will be charged the GA rate rider. OEB staff supports this treatment, since it ensures that customers will continue to contribute to disposition of balances which Enersource incurred on their behalf.

OEB staff submits that Enersource's Group 1 Deferral and Variance Account balances should be disposed of on a final basis.

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<sup>44</sup> 2016 Uniform Electricity Transmission Rate Order, EB-2016-0311

## Residential Rate Design

The OEB's April 2, 2015 policy<sup>45</sup> on electricity distribution rate design set out that distribution rates for residential customers will transition to a fully fixed rate structure from the current combination of fixed and variable charges over four years. Starting in 2016, the fixed rate will increase gradually, and the usage rate will decline.

The OEB requires distributors to calculate the impact of this change and any other changes in the cost of distribution service to those customers who are at the 10<sup>th</sup> percentile of overall consumption, as well as the impact of the change in fixed rates to residential customers in general. Any increase of 10% or greater to low-consumption customer bills arising from changes in the IRM application, or an increase to the monthly fixed charge of greater than \$4 prior to incentive rate-setting adjustments, may result in the requirement for a longer transition period than the four years specified in the OEB policy or another mitigation strategy.

Adjustments to Enersource's rate model to implement the change in fixed rates over four years results in an increase to the fixed charge prior to IRM adjustments of \$2.23. In response to an OEB staff interrogatory, Enersource confirmed that for a typical low consumption customer, bill impacts are an increase of 4.4%.<sup>46</sup> The OEB policy requires mitigation for any increase above 10%<sup>47</sup> for low-consumption customers, therefore OEB staff submits that Enersource's proposed transition toward fully fixed rates is consistent with OEB policy and does not require proposal of any mitigation plan.

*All of which is respectfully submitted*

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<sup>45</sup> Board Policy: A New Distribution Rate Design for Residential Electricity Customers (EB-2012-0410), April 2, 2015

<sup>46</sup> Response to 2-Staff-1, December 9, 2015

<sup>47</sup> Ontario Energy Board Policy: A New Distribution Rate Design for Residential Electricity Customers, EB-2012-0410, April 2, 2015